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Economic Conditions
Governmental Finance
United States Securities

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General Business Conditions

THE change of sentiment in business circles for the better has been pronounced in the last two months, and particularly in the last month. The country is well out of the relapse to pessimism which afflicted it in the Spring.

At the close of 1924 conditions in this country and the world over appeared to be more nearly normal than at any time since the war, and therefore favorable to a healthy expansion of industry and trade. This was the concensus of opinion among business leaders as expressed in year-end reviews and comments. In the course of a couple of months, however, complaints were numerous that business was not all it ought to be. Competition was severe, costs were high, profits were unsatisfactory and looking ahead there were signs of lions all along the path. Wheat declined from $2.00 to $1.50, corn from $1.35 to $1.00, and some people saw another agricultural crisis looming up; the stock market declined ominously; the automobile industry was reported slow, the prospects for the building and equipment industries were said to be poor, the coal industry was ruined, textile and other industries were in a bad way. Enough unfavorable comment of this kind was afloat to weaken seriously the spirit of confidence with which the year began.

In comparison with other years the general volume of business was large throughout the first half of the year, as the records now show, but it was not large enough to meet expectations, and in a number of important lines a considerable amount of unemployment existed. Production however did not fall off as rapidly as in the Spring of 1924, when political agitation incidental to the approaching presidential campaign was a factor in the situation.

The Improved Outlook

One reason for discouragement as the Spring advanced was unfavorable weather conditions for the crops. In June, however, the outlook improved very much, advices from the country became more cheerful, and confidence has been growing constantly since. The stock market gives its testimony in a level of prices higher than that of last January and about 15 per cent above the level at the end of the March slump. This may be taken to mean that in the judgment of the market the outlook for business is just as good as it looked to be last January. The fundamental conditions are the same that inspired confidence then. Operations in the stock market are favored by easy money, but the main influence behind the rising prices has been a belief that prosperity is ahead.

The most important element in the general situation is the state of agriculture. The rise of agricultural prices last year was one of the principal factors in the confidence which prevailed at the beginning of this year, as it was thought to signify the reestablishment of more normal relations between agriculture and the other industries. Opposed to this, was the view that the rise was due to abnormal conditions and that unless artificial regulation or aid was resorted to this relief would prove to be only temporary.

It is generally agreed that given the assurance of normal crops and normal purchasing power for the farmers, there is no basis for pessimism in this country. The wealth that comes out of the ground after the labor of the husbandman has been given is new wealth to the nation, and a fundamental factor in its prosperity, but it is also true that the husbandman must have a fair exchange of his products for the products of the other industries, or the entire industrial and business situation is deranged.

The crops are reviewed particularly elsewhere, and it is sufficient here to say that they promise now to be ample, but not so large as to create surpluses. Farming operations are adjusted to average conditions and unusual conditions tend to throw the situation out of balance. The war disturbed the equilibrium between demand and supply in many things, and the large world crop of wheat in 1923 and short crop of corn in 1924 had similar effects in those grains. This year the crops appear

to be well adjusted to the demands, and prices such that farmers will have practically their pre-war purchasing power.

A South Dakota Calculation

The Monthly Bulletin of the South Dakota College of Agriculture, dated July 15, 1925, carries a table showing how the prices of the principal farm products of that State, as sold locally, compare with the prices of the more important non-agricultural products, as purchased locally. By comparing prices in the local markets the influence of freight rates and middlemen's charges are practically eliminated.

The table is made by first taking the average prices of agricultural products and non-agricultural products over the four years 1910-13 as constituting the par of exchange relations, and then calculating how much of non-agricultural products each of 13 agricultural products, and all of them combined, would buy in June 1924, May 1925 and June 1925. The table follows:

PURCHASING POWER OF SOUTH DAKOTA FARM PRODUCTS

("Farm prices are 'low' or 'high' depending upon whether they are lower or higher than other prices.")

$1's worth of the following S. Dak. farm products (sold locally)	Exchanged for* The value listed below of non-agricultural products (purchased locally)			
	June 1924 c	May 1925 c	June 1925 c	Month Trend
Hogs	56	101	98	Lower
Beef	82	86	86	Same
Butter	93	101	104	Higher
Eggs	58	74	78	Higher
Wool	125	129	129	Same
Chickens	02	118	115	Lower
Corn	75	105	113	Higher
Wheat	69	97	104	Higher
Oats	65	65	72	Higher
Flax	70	34	85	Higher
Barley	49	61	62	Higher
Hay	55	62	63	Higher
Potatoes	40	44	52	Higher
Combined Farm Products†	70	95	96½	**Higher**

* It is considered that $1's worth of South Dakota farm products during the years 1910 to 1913 purchased $1's worth of non-agricultural products.

† "Combined Farm Products" is obtained by multiplying the value of each of the thirteen important products by the approximate percentage of the total South Dakota sales which each represent.

This shows that in South Dakota the purchasing value of farm products worth $1 before the war advanced from 70 cents in June, 1924 to 96½ cents in June, 1925.

These are the common farm products of the northern states, and most of them are produced in all of the states. Cotton, tobacco and the other field products grown elsewhere, and the fruit and vegetable crops generally, will show as good a comparison between present and pre-war prices. Dairy products have been close to the parity at all times. Live stock and potatoes have had a substantial advance since the above table was made.

The Basis of Prosperity

It is to be considered also that the increased incomes of farmers last year were largely devoted of necessity to the payment of interest and accumulated debts, and that not only will agricultural prosperity be more widely distributed this year, but the returns will be available to a greater extent for the purchase of needed comforts and supplies. There is an accumulated demand throughout agricultural territory which more than one year's crops will be required to satisfy. There are still many debts to be paid, but credits will be easier, confidence will be restored and courage and enterprise will give stimulus to business throughout the sections that have been depressed.

It is safe to say that the country has not had so good a basis for sound and general prosperity heretofore since the war. It is not a situation created by dire needs or calamity anywhere, but rather by the restoration of balanced and reciprocal relations, advantageous to all, and which may last indefinitely.

The Common Interest in Fair Exchanges

The above table shows that even now the farmers as a class have scarcely regained the purchasing power which they had before the war. Their purchasing power is in their own products, and the prices, of these are "low" or "high" as the South Dakota Bulletin says, "depending on whether they are lower or higher than other prices." For four years their products have been below the pre-war parity, and of necessity they have restricted their purchases of the products of other industries. One year ago farm products were 30 per cent below the pre-war parity, and in previous years their position was worse. No wonder the town industries have been irregular, running by fits and starts, when great bodies of consumers have been compelled to thus reduce their purchases. Moreover, the farmers are not the only ones who have had to economize, for the unemployment and part-time work caused by their impoverishment has made nominally high wages more effective in the wage-earner's cost of living than in his actual income. The cost of living has been on the wage-rate basis, but actual income has been on the employment basis.

It is true that higher prices for farm products mean that living costs are to that extent increased, but any attempt to raise wages in the other industries on that account simply means an effort to thrust the farmer down into the position of inequality out of which he is

struggling. Furthermore it means a continuance of irregular industry, with lost time costing the wage-earners more than higher wages come to. It is a battle with economic law and the latter never loses. A fair adjustment of the relations between the industries is better for all than a heedless scramble to get the better of each other.

The Situation in New York State

In an address at Binghamton, New York, last month, Professor George F. Warren, of the New York State College of Agriculture, discussing present conditions with especial relation to New York State, said in part:

> No product sold by New York farmers is as much above pre-war as are the earnings of factory workers. The May price of milk was 59 per cent above the five-year pre-war average for May, but earnings of factory workers were 121% above the 1914 level.

This is a comparison of farm products with wages, while the South Dakota comparison is between farm products and other commodities. The difference between the two comparisons indicates that industrial products generally have not advanced as much as wages, which is explained by the constant efforts of managers, by improved methods, to reduce industrial costs. Professor Warren's statement shows that in New York State the wage-earning class is in a far better position today than are the farmers.

Pending Industrial Disputes

Whether prosperity is maintained or not depends upon these group relations, for their disruption will produce the same results in the future as heretofore. The railroad brotherhoods have given notice of their intention to submit requests for wage advances, although the western railroads are now presenting to the Interstate Commission the need for higher freight charges to yield the reasonable earnings which the law contemplates, and the representative farm organizations are not only opposing their argument but contending for rate reductions. What answer should be given, in the general interest?

The anthracite coal miners, who two years ago obtained an increase of 10 per cent upon the highest wage-scale ever in force in that industry, are demanding another increase of 10 per cent. The bituminous industry affords an example of an industry in which wage-rates that are uneconomically high have worked to the disadvantage of both employers and wage-earners. Eventually there must be a reorganization of the industry which by eliminating waste will afford better actual wages, with lower mining costs and cheaper coal to consumers.

In other industries economic conditions are slowly forcing readjustments which are needed to restore normal relations. The woolen and worsted industry in New England, after a costly effort to do business under a wage scale which, according to reports of the Bureau of Labor, was 200 per cent above the pre-war scale, has announced a reduction of 10 per cent. The cotton goods industry has been gradually making a similar reduction in the past year. Wage reductions are being made in the tire industry, in an effort to minimize the advances which are made necessary by the rise of rubber.

An Ill-Founded Protest

Mr. Green, who has succeeded Mr. Gompers as President of the American Federation of Labor has protested against the textile wage reductions on the ground that the policy is unsound economically, in that it will reduce the purchasing power of the employes. This disregards the fact that their purchasing power already has been reduced by unemployment, and that the purpose of the wage-reduction is to secure an increase of mill-operations, which if accomplished will mean an increase of real wages. If Mr. Green's argument is sound without qualification business might be helped by doubling textile wages over again. His argument would be sound as against an effort to reduce textile wages below the normal level of all wages and the compensation of all workers, including the farmers.

One of the spokesmen for the anthracite miners is quoted as saying that the union is "irrevocably opposed to any backward step," and "in favor of progress wherever possible." As an abstract declaration no objection can be made to this. It is not in the general interest that the wage-workers as a class shall have to submit to any backward step, and there is no danger that they will be required to do so. Modern society, however, is so organized that it must progress as a whole if it progresses at all, and efforts to advance the position of separate groups without regard to the effects of such efforts upon each other's welfare simply throw the whole situation into confusion, to the injury of all.

The business outlook is better than it has been for years, because on the whole the industries are more nearly balanced and therefore in better relations to take each other's products and provide each other with full employment.

Foreign Affairs

The improvement in sentiment which characterized the close of last year and the beginning of 1925 was caused in part by the settlement of the reparation dispute, the successful flotation of the German foreign loan, and the belief that the way was cleared of political obstacles to the general industrial rehabilita-

tion of Europe. Politically the European situation has continued to improve. The negotiations between Great Britain, France and Germany for a voluntary peace pact between the three nations have proceeded so far that their consummation and the entrance of Germany into the League of Nations appear to be probable. The Reparation Commission has certified to the faithful performance by Germany of the obligations of the London agreement, and France has announced and begun the withdrawal of her troops from the Ruhr district, in pursuance of the same agreement. These events are milestones of progress.

Next in importance is the movement toward the balancing of budgets and establishment of currencies on the gold basis. It now seems not too much to say that nearly all of Europe is close to both achievements. Three months of free gold transactions by the Bank of England have resulted in a gain of approximately $35,000,000 in the reserves, which now are the largest in the history of the Bank. Instead of tight money as predicted by the opponents of the gold policy, money is easier.

In France, the plans of the Finance Minister, M. Caillaux, appear to be proceeding successfully. The device of a new loan in which principal and interest payments will be made in fixed gold values appears to have solved the problem created by the outstanding bonds which are maturing this year, but this policy depends upon the budgetary balance and also involves an early and definite stabilization of the franc currency for all purposes. Without doubt M. Caillaux's policy contemplates these conditions. If the government is sustained in its present policies confidence in the stability of French finances will be restored.

Italy's financial year closed on June 30 with a surplus of 200,000,000 lire, and that country may be considered back on a balanced-budget-basis. The trade balance is against the country, but this is normal, inasmuch as Italy has a large income from tourists and remittances of its citizens abroad. Industrial conditions are good, as wages are low and the industries are able to compete successfully in world trade with those of Great Britain and other countries where costs are higher.

Although the government of Austria has not been able to keep expenditures within the limits fixed by the League of Nations, revenues have been larger than contemplated, so the situation is not worse than allowed for in the plan. The national bank, which issues the currency, is in strong position and has lately reduced the discount rate to 10 per cent.

The reconstruction of Hungarian finance, begun with a foreign loan about one year ago, has been very successful. The currency has been maintained at the gold value, and the revenues (including those specifically pledged to the loan) have exceeded the estimates.

Good crops have been grown throughout Europe, which will help the exchange situation by reducing food imports.

General Industrial Conditions

Industrial conditions are still below normal in most of the countries of Europe. This is not difficult to understand when it is considered that in addition to the disruption of price relations with which we are familiar in this country, trade relations over there have been interrupted by new national boundaries, new customs tariffs, reparation payments, etc. Poland and France have territories taken from Germany and which formerly were part of the German economic system. The special treaty arrangements under which trade relations between these regions and Germany were temporarily continued, have now expired, and much confusion results. The trade relations between the several portions of the old Austrian empire are involved in like difficulties. The coal and iron industries are particularly depressed. Their capacity was increased generally during the war, and in the case of coal the high prices since have stimulated the development of water power and use of oil for making steam and motor power. The German coal poerators have accumulated large stocks and are pushing their sales vigorously wherever markets can be found.

All reports indicate that the German people have buckled their belts tighter, and set themselves resolutely to the task of improving their industries, increasing production and exports and reducing imports, with a view to meeting the reparation payments and rebuilding their fortunes. The new customs tariff now pending is intended to reduce all importations not essential to German industry. Every possible effort will be exerted to make Germany self-supporting as to food, and industry will be systematically organized with a view to concentrating production to secure the highest possible efficiency. Although the law provides for an eight-hour day, this may be waived by agreement, and is being waived in many instances. The masses of the people seemed to be impressed that the only hope for the country is in hard work.

Industrial Conditions in Great Britain

At the moment pessimism is at high tide in Great Britain. The number of registered unemployed is greater than a year ago, the trade returns of recent months have been especially bad, and a grave crisis is impending in the coal industry.

The industries of Great Britain have suffered from competition on the continent, where

currency depreciation has accomplished a reduction of wages in such an insidious and stealthy manner that the wage-workers scarcely knew what was happening, or did not know how to prevent it. However, the fundamental reason for the poor trade in certain industries largely dependent upon export business is that consumption in those lines is low the world over. The conditions are like those that have existed in the United States as the result of unbalanced relations between agriculture and the highly organized industries. The reduced amount of business tends to go to the countries where industrial costs are relatively low. It is estimated that the aggregate of steel exports is 40 per cent less than would be normal but for the interruption of industry by the war.

The labor organizations of Great Britain refuse to recognize or meet this situation, and Belgium and Germany have been taking the work, even in the British home market. It is said that if British workmen should accept lower wages, their competitors on the continent would cut under them further, and that the policy would simply mean the degradation of labor everywhere, but there is reason to believe that this is a mistaken opinion. A general reduction in the cost of coal and steel probably would give the very stimulus which is needed to bring consumption back to the normal rate. The first effect of an increase of 40 or 50 per cent in the demand for steel would be to put the steel-makers at work and give them more wages than they have had in many a day, while the industries using the steel would give work to as many more, and the increased purchasing power thus set in motion would be felt all the way around the industrial circle. Moreover, once the industrial machine was in balance again, wages everywhere would resume their natural tendency upward. The desperate struggle over a limited amount of business would be over, and a competitive struggle among the industries for labor would take its place.

The textile industries of Great Britain, like the coal and iron industries, have world-wide markets, and there can be no doubt that the prices of these goods, also, are too high for former customers to take them in the same quantities as before the war. The law of exchange is an unyielding one; no people can spend any more than the value of their own products; you may trade with them on that basis and no other. The refusal to recognize this condition is the secret of unemployment in England—and such unemployment as we have in this country.

A Hopeful View

The British Chancellor of the Exchequer, Mr. Winston Churchill, in a speech in London on July 15, referred to "the cloud of uncertainty" which hung over the national life, meaning the threatened coal strike, and said that such a catastrophe would completely derange the whole economic and commercial conditions of the country and inflict injuries from which it would not recover in a very long time. He hoped and believed, however, that it would not occur. He discussed the industrial situation, saying that there were about 1,300,000 unemployed, which was about 300,000 more than at this time last year. Of this number 250,000 were accounted for by the depression in the coal trade and 75,000 by the more liberal rules for granting unemployment benefits established by the Labor party while it was in power.

He went on to show that notwithstanding this roster of unemployed, conditions in England were by no means desperate. His statements concerning some of the results of the dole system are instructive. He is reported as follows:

> In the ten years before the war, when there was no incentive to register as unemployed, the average of unemployed persons was probably never less than 400,000, so that we had to face an increase, after making allowance for exceptional conditions, of probably 700,000. But during the ten years since the outbreak of the war the population had greatly increased. The restriction of emigration had far more than balanced the losses of the war. The population was now increasing at the rate of 250,000 a year. But the people who arrived at the age when they could earn a living were all born at least 16 years ago; and in those days the population was increasing at 400,000 a year. Moreover, women had become earners on a far larger scale than ever before. These causes were reflected in an increase of the population on the rolls of the Health Insurance of over 100,000 a year. That gave an increase of the regular classified industrial population. In ten years that was 1,000,000 more people employed. But the figures of Health Insurance covered only 70 per cent of the population, and there were a great many forms of productive work in which both men and women engaged not included in them. On the other hand, hours of labor were shorter. Still the fact remained that there were more people employed in this island now than ever before, and they were, on the whole—with grave exceptions—employed at better wages and under better conditions then ever before. Otherwise, how did they explain either the increased consuming power of the masses of the people or the increased yield of income-tax and death duties? Such results would be impossible if this island were not providing profitable employment for increasing numbers of people every year.
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> The population of Great Britain drank more tea, consumed more tobacco, ate more bread and meat, wore more and better clothes, more and better boots, spent more on entertainment and amusement per head than before the war. The mass of the laboring population had come through the war not worse, but better. The deposits in the savings banks and the sale of War Savings certificates also showed a steady increase. Only in respect of beer and spirits had consumption declined. The general condition of the people had improved.
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> He was originally responsible for framing the first Unemployment Insurance Act. The object of that Act was to provide covenanted benefit to contributors in certain trades which were specially subject to seasonal and cyclical fluctuations in employment. That object had been completely transformed under the pressure of after-war unemployment, by the extension of the same benefit to all unemployed persons whether they were qualified contributors or not.

There was a good case for that extension, and without it we should certainly not have got through the most severe industrial crisis of 1921. But the fact remained that under our present system our industries were rigidly divided into watertight compartments, and at the tail of every trade there was its own separate waiting list of unemployed persons. That was a condition of affairs which no other country in the world had created, and it must play a harmful part in our national economy.

The present system of extended unemployment benefit undoubtedly hampered the mobility of labor. A certain degree of mobility of labor was essential. Some coal mines were developing, others were worked out. But the mines which were expanding drew in new labor from the country districts, and those which were being worked out left their population sitting, living on the unemployment fund, around the dead pit. It was said, for instance, that 100,000 new workers had been taken into the coal industry in the last two years, while in other parts of the country 200,000 had joined the unemployed. It ought not to be impossible to remedy an obvious breakdown like that.

Continuing, Mr. Churchill reviewed the financial achievements of Great Britain since the war, as follows:

The main grounds of British policy had been threefold; first, to balance the Budget out of revenue; secondly, to reduce the debt; thirdly, to reduce public expenditure, and in consequence to remit taxation. We had either achieved or made progress towards all these objects. From 1920 onwards we had balanced our Budgets. We had reduced our debt from the peak at which it stood in 1919 (not in nominal figures but in facts) by over £736,000,000, and we had reduced our real annual interest charge by over £70,000,000 a year. Expenditure had fallen from £1,655,000,000 in 1922 to less than half that figure now, and taxation had been reduced by over £300,000,000 a year. This year's Budget alone reduced taxation by £32,000,000 in a full year. Except the United States, Holland and Switzerland, we had the lowest Bank rate in the world.

Money and the Exchanges

Money is a little firmer, but the commercial demand remains light. Although the Winter wheat harvest is over the movement of grain has been light, the farmers apparently being in position to hold and no hurry to sell. Grain dealers are using comparatively little money. The fact that this wheat crop will be consumed almost wholly by domestic millers, and that foreign buyers will look for their supplies in other markets, may make a difference in the course of .narketing this year. It will certainly make a difference in our foreign trade figures.

The volume of bank credit outstanding over the past year shows a large increase in the aggregate, but surprisingly little change in the amount employed for commercial purposes. There are no recent figures available for the credit operations of all the banks, but we have the weekly reports of over 700 of the leading banks of the principal cities of the country, as made to the reserve banks in which they have membership. These banks had a total of $17,122,177,000 of credit outstanding on July 16, 1924, and $18,769,491,000 on July 15, 1925, showing an increase of $1,647,314,000 between these dates. They do about 65 per cent of the business handled by all member banks, and about one-half of all banking business.

In the following table are given figures for the bank investments and for all loans and discounts, also and separately, for the amount of loans upon stocks and bonds and other loans and discounts. The classification does not strictly separate commercial loans, but they are assumed to be generally included in "other loans and discounts":

(Omitting 000,000)

	All Loans and Discts.	Loans on Stocks & Bonds.	Other Loans and Discts.	Investments.
July 16, 1924	$12,220	$4,378	$7,852	$4,902
Oct. 15, 1924	12,785	4,579	8,206	5,441
Dec. 31, 1925	13,068	4,863	8,205	5,530
March 4, 1925	13,243	5,000	8,243	5,336
May 20, 1925	13,097	5,030	8,066	5,486
July 15, 1925	13,285	5,228	8,057	5,483

It will be seen that "all loans and discounts" are larger than a year ago by $1,065,000,000, "loans on stocks and bonds" have increased by $850,000,000, while "other loans and discounts" have increased by only $215,000,000. Investments have increased by $581,000,000. These were highest on December 31, declined to March 4, and have increased since. Commercial loans were highest on March 4, and loans on stocks and bonds are higher now than at any previous time.

Total of bills discounted by all Reserve banks, on July 23, 1924, $290,832,000. The low point of this item was on January 21, 1925, at $202,757,000. At the latest date, they stood at $442,522,000. Total gold holdings of the Reserve banks have declined from $3,167,527,000 to $2,790,850,000, but little significance attaches to this, as it has been the policy of the banks to pay gold certificates into circulation. However, gold exports exceeded gold imports during the fiscal year ending June 30th by $114,584,562.

The movements of gold since March have been very light. The net foreign trade balance in favor of this country for the fiscal year ended June 30, including silver, was $1,079,895,453, which of itself would indicate that gold importations should continue, but the commodity trade balance is offset by our foreign loans. The Department of Commerce calculates that foreign loans publicly offered in our markets from January 1 to July 1 aggregated $551,591,000. These take care of the trade balance to date, and other offerings seem likely to do so for some time to come.

Without further gold imports the member banks will be unable to increase their loans in any important degree except by resorting to the reserve banks, which they are not likely to do unless tempted by higher interest rates. It follows that if trade expands in the Fall, as now seems probable, rates will be moderately higher.

As there has been a considerable movement in certain exchange rates of late we give our

table of the principal exchanges brought down to July 28:

Foreign Exchanges

	Unit Value.	Rate in Cents Feb. 26, 1925.	Rate in Cents July 29, 1925.	Change From Par
Canada	1.00	99.92	100.12	+ .12
Germany	.2382	23.82	23.82	—
Italy	.1930	4.05	3.69	—15.61
Belgium	.1930	5.03	4.64	—14.66
France	.1930	5.16	4.76	—14.54
England	4.8665	475.75	485.87	— .78
Switzerland	.1930	19.22	19.42	+ .12
Holland	.4020	40.04	40.15	— .05
Denmark	.2680	17.84	22.80	— 4.00
Norway	.2680	15.23	18.40	— 8.40
Sweden	.2680	26.95	26.88	+ .08
Spain	.1930	14.17	14.49	— 4.81
Argentine	.9648	90.50	91.77	— 4.71
Japan	.4985	39.75	41.25	— 8.60

The most notable changes are the advances of the rates on Denmark and Norway, particularly the former, which has run up nearly to par, and the decline of the Italian and French rates. Both of the latter have made some improvement from the low point. The rate on Japan is notably higher.

Agriculture

This is the critical time for the corn, spring wheat and cotton crops. The July government estimate of winter wheat puts the yield 184,000,000 bushels under last year's crop. The Southwest growers suffered seriously in this reduction, but in comparing results with those of last year it should be considered that last year's crop was marketed with unusual rapidity and at prices 30 to 40 cents per bushel under the prices prevailing this year. Moreover, the protein quality in the Southwest is higher than last year, and millers are paying premiums of 15 to 20 cents per bushel over market quotations.

The Spring wheat crop has a doubtful status at this writing, reports conflicting as to the amount of injury done by the hot wave which struck it about the middle of July. It will take threshing returns to settle the question, but there is good reason to expect at least an average yield. Up to July 10 it looked like a repetition of last year's bumper crop. The government's July estimate of Spring wheat was 276,000,000 bushels against 283,000,000 last year, making all wheat 680,000,000 bushels this year, against 873,000,000 last year. Some further reduction seems inevitable.

Inasmuch as domestic seed and food requirements are estimated at about 650,000,000 bushels, and the carry-over stocks July 1st were moderate, it appears that east of the Rocky Mountains we are near to a strictly domestic market basis. Surplus Pacific Coast wheat cannot be brought to our eastern markets unless the latter are above an export basis. Moreover the durum wheat included in the estimates is not used for ordinary flour; and finally, it is to be considered that our millers have an established foreign trade for their flour which does not readily change to other brands on account of price fluctuations, and that more or less wheat is always contracted for export in advance and is moving out now. It is possible, therefore, that the price of wheat in this country may be very much higher this year than in outside markets. The import duty is 42 cents per bushel. For December delivery, Chicago, Kansas City and Minneapolis quotations now are about 15 cents per bushel above Winnipeg prices, although the Winnipeg grade is higher than the quoted grades in our markets. Last year Winnipeg prices were above ours from June to December.

Foreign Wheat Crops

Canadian conditions this year have corresponded closely to those in the neighboring territory on this side of the boundary. Early in July, milling and railway authorities thought the outlook was for another bumper crop, perhaps 500,000,000 bushels, but the government bureau cautiously placed its July 1st estimate for all Canada at 365,000,000 bushels, which was intended to allow for the deterioration which usually occurs in that month. The crop has suffered to some extent from rust and heat, but this estimate may be realized.

European crops are better than last year, but advices to the United States Department of Agriculture from countries producing about 75 per cent of the world's wheat crop indicate that outside of Russia and China the gains have only about made up for the falling off in the United States.

The immediate uncertainties relate to Canada and Russia, and there remains the question as to what Argentina and Australia will do later. Russia will be an exporter, but the amount of her supplies is yet a matter of rather vague estimates. The Argentine acreage is the largest ever sown.

Uncertainty the Explanation of Speculation

From the above description of the wheat situation as its stands at this time it is easy to understand why there are fluctuations in the price of wheat. The price depends upon the size of the available supply, which must answer the needs until another crop is grown. Somebody must carry wheat until next summer, and if the supply proves deficient, it is necessary that the price shall be high enough to induce economies in its use, and important that these economies begin as promptly as may be. On the other hand, if the supply is so large that all of it will not be needed before the next harvest, evidently some of it will have to be carried over into the next crop year, and if there should happen to be another surplus, into the year following or beyond. It costs

something to carry wheat over year after year, and nobody wants to do it: there is a common inclination to let the other fellow do it, and the disposition to sell out and pass up the task of carrying the surplus is what makes lower prices. There is a theory current that wheat ought to bring a fixed price at all times, regardless of the supply, but it is not likely to be realized so long as the average man would rather have a dollar in hand than the prospect of getting it after a year or two.

Wheat Fluctuations Last Year

It is interesting to turn from present uncertainties and review the uncertainties of last year. It was early known that the world's crop of 1924 was considerably less than the crop of 1923, but opinions differed about how much less. Prices fluctuated from day to day with the news, but in this country were below prices in Canada and Argentina until December, with the result that we got most of the foreign business. December was the first month in which the price did not fall below $1.50 per bushel in Chicago, although there were fluctuations above $1.50 in each month after June. By December the protracted advance and newspaper stories of the profits of speculators, had attracted wide attention, and a lot of people were taken with the idea that they would like to own some wheat. The price range in this month was $1.52½ to $1.91¼ and it had now become a popular theory that wheat supplies would not last until the next harvest, and that the price would go to $2.50 and maybe higher.

The top was reached in the last week of January, at $2.05⅞, but doubts were now developing as to whether supplies were being reduced fast enough to be exhausted before July. The Argentine and Australian crops were moving at lower prices than were prevailing here, with the result that buying shifted to them, and prices in this country had a setback of 28 cents per bushel. The bulls, however, rallied on Russian importations and carried the price back to $2.02 on March 2nd, where they encountered heavy short-selling, and the market suffered a succession of sharp breaks, down to $1.51 on March 17.

In the April letter we commented upon the situation as follows:

Exports from Australia and Argentina have been running very high, and the critical question is how long can they keep it up? The theory of the bulls has been that those shipments would soon decline and that the United States and Canada would have to supply the needs of the importing countries for the remainder of the season. The average imports throughout the year in 1923-24 were 65,000,000 bushels per month. How much Europe has in stock nobody seems to know, but there are only ten or twelve more weeks until new wheat will begin to come to market in the United States. This is the overshadowing fact that tries the stamina of wheat-holders, despite their figures. Apparently supply and demand are closely balanced, and it must be considered that with wheat at a high level and the new crop only a few weeks away, stocks of wheat and flour everywhere will be reduced to the minimum.

The Outcry Against Speculation

A great outcry against the grain exchanges followed the March decline. It was alleged that gamblers had destroyed the farmers' market, and the denunciation of "short" selling was particularly severe. There was little complaint in this country of the speculative activities which advanced prices, although it is evident now that the great advance furnishes the true explanation of the subsequent decline. "Short" selling has been under government investigation ever since.

Selling "short" is the technical term for contracting for a future delivery without having the commodity on hand at the time, and is not uncommon in many lines of business. Unquestionably "short" selling was a factor in the March decline. Certain large traders were of the opinion that conditions did not justify $2.00 wheat and that they were safe in offering to deliver round lots a few weeks later at lower figures.

Failure of the Bull Calculations

That debate over how much wheat would be available before the new crop came to harvest is all over now, and it is possible to judge the controversy by the facts. The truth is that no shortage developed. The visible commercial supply of wheat in terminal elevators in this country on July 1st last, as given by the crop-reporting bureau of the Department of Agriculture, was 32,000,000 bushels, or only 5,000,000 bushels less than on July 1, 1924, and the same authority calculates the total carry-over, including stocks in country elevators and on farms, at 87,000,000 bushels, which compares with 106,000,000 one year ago and 102,000,000 two years ago. Bradstreets reports the combined stocks of the United States and Canada in terminal elevators east of the Rocky Mountains, on June 27, 1925, at 70,507,000 bushels, and the Department of Agriculture gives an estimate of 47,000,000 bushels for the exportable surplus of Argentine on June 30, besides which there was some in Australia. These figures show that the "short" sellers were right in their judgment that there would be no shortage of supplies.

Estimates and Realities

What was the matter with the "bull" calculations? In brief it turns out that there was more wheat in the world than they thought there was. Each of the big four exporting countries shipped more wheat than they were expected to, and it is probable that production in all of them was underestimated.

The United States Department of Agriculture gathers crop information in all parts of the world, all countries collect statistics as to their own production and there is an International Institute of Agriculture in Rome which compiles world figures. On November 25, 1924, our Department of Agriculture on the strength of its own investigations and reports from these other agencies, issued maximum and minimum estimates of the probable exports of wheat by the principal exporting countries in the year ending June 30, 1925. This was several months after the harvest in the Northern Hemisphere, but before the harvest in the Southern Hemisphere. These estimates are given below together with a preliminary calculation issued by the Department on July 13, 1925, of the actual exports:

NET EXPORTS OF WHEAT, INCLUDING FLOUR, FROM PRINCIPAL EXPORTING COUNTRIES
Year ended June 30, 1925

Country from which exported	Estimates Maximum	Nov. 26. 1924 Minimum	Actual 1925 Preliminary*
United States	225,000,000	200,000,000	250,000,000
Canada	190,000,000	170,000,000	195,000,000
Australia	85,000,000	75,000,000	122,000,000
Argentina	150,000,000	130,000,000	124,000,000
British India	35,000,000	25,000,000	44,000,000
Russia, etc.	20,000,000	10,000,000	....
Total	705,000,000	610,000,000	735,000,000

* Compiled from official sources, except for last few months of 1925, when data from commercial sources were combined with official figures to complete export statistics for the year.

Since the above table was prepared the actual exports of the United States have been fixed at 257,527,000 bushels.

These figures are not so very far from the maximum estimate, but it will be noted that Russia failed to export any, while the other countries exported 57,000,000 bushels more than they were counted for in the maximum estimate. The failure of Russia was sensational market news, while the increase from other sources did not appear until later. However, it was not excess of exports so much as the ample supply in sight at the end of the year that defeated the bulls. It is noteworthy that notwithstanding the short crop in Europe the movement from the exporting countries aggregated less than for the crop year 1924, when it was 766,452,000.

Other Grains

The corn crop is of unusual importance this year, on account of the short crop last year. The acreage is the largest ever planted, from the fact that much ground originally sown to wheat was put into corn when the wheat was winter-killed. The month of May was unfavorable, but the season since has been so good that the outlook now is for an excellent crop. Hot weather has worked some injury, and perhaps prevented a record-breaking yield, but there is good reason to expect over 3,000,000,000 bushels. If realized this will go far to restore prosperity in the middle west and to the live-stock industry. It will reestablish the normal economy of that region. The consumption of corn this year has been largely reduced by reason of the high price, and in consequence the price has declined to a little above $1.00 per bushel. New crop contracts, December delivery, are selling in Chicago at about 87 cents.

The early-sown oats suffered from a cold and dry May, but later-sown fields are much better. The crop will be smaller than last year, but close to the five-year average. The rye and barley yields will be lower than last year, but this deficiency is of relatively small importance.

The acreage in flax is 4 or 5 per cent larger than last year and a good crop is in prospect.

Live Stock

Hogs are bringing high prices, and this is likely to be the case for another year, according to the pig census of the Department of Agriculture. Its survey indicates that about 31,000,000 pigs will be raised from this Spring's crop and that fewer pigs will be raised next Fall than last, probably not more than 12,000,000. This would make the total corn belt crop for the year, 43,000,000 pigs compared with 47,500,000 in 1924 and 59,000,000 in 1923. In addition, the department said, favorable prices and a good corn crop probably will lead to a considerable increase in breeding stock, which will reduce the number of hogs available for market between November 1, 1925, and October 31, 1926.

While the right adjustment between corn and hogs is not easy to maintain, it is evidently the farmer's task, for no one else can do it. There never was a more obvious case of the operations of supply and demand.

The long looked for change in the cattle markets seems to have come, the market turning up decisively on everything in June. The movement has been overdue and impending for some time. Cattle suffered from the low price of hogs in 1923 and part of 1924, and just when they should have benefitted by the rise of hogs were hurt by the short corn crop. Cattle receipts at eleven markets in June were 100,000 less than in that month last year, and the results have been striking. Heavy cattle and choice yearlings have both scored handsome advances, and the stock cattle market is looking better than for a long time, as a result of the good corn prospects.

John Clay & Co.'s "Live Stock Markets," July 9, gives the following comparative table of Chicago prices for live stock, corn and wheat, with attached comment:

	July 8, 1925	July 9, 1924	Gain
Cattle, per cwt.	$13.75	$11.00	$2.75
Hogs, per cwt.	14.00	7.50	6.50
Lambs, per cwt.	15.25	13.75	1.50
Corn, per bushel	1.06	1.05	.01
Wheat, per bushel	1.50¾	1.24¼	.26½

No large runs are on the horizon and the future is favorable. A big corn crop is progressing most favorably. It will mean a broad outlet for feeders. Especially favorable at this writing are western grass cattle growers' prospects. The wool situation holds firm and western lambs are evidently going to sell well. In fact the whole situation, both locally and over the great western area of the country, is good, and agriculturists are in a more strongly fortified position today than for a very long period. And the best part of it all is its apparent permanency.

The Drovers Telegram of July 22 in its market comment says that "in no other season in the history of the Kansas City market did grass cattle bring such satisfactory prices as they are selling at now." In its issue of July 25th it has the following market item, touching cornfed cattle:

Looks very much like war-time prices, when cornfed steers bring $189.75 per head with a carload of 17 head aggregating around $3,222. After 1 o'clock yesterday a shipment of 17 steers from the farm of Gilbert Barr of Kearney, Mo., arrived at the yards, and before 2 o'clock they went over the scales at $13.85, which is the high level paid for steers of their weight for five years. They weighed 1,370 lbs.

"The Great American Desert"

A glimpse of present conditions out on the plains, a region which was marked in the geographies of the Civil War period as the Great American Desert, is afforded by the following extract from a letter received by us from Mr. F. L. Pelton, cashier of the First National Bank of Mitchell, Nebraska. Mitchell is located on the Burlington Railroad, close to the Colorado State line, in a district irrigated from the South Platte River. Mr. Pelton says:

We have been selling some of our range cattle this week and it has occurred to me that you might be interested to know something of the values of our local cattle, which will give you a fairly good idea of the quality of our stock. Sandford sold his 4 year steers that will weigh off grass about 1400 pounds at $9.50 per cwt. to net him about $130 to $135 per head. Ashbrook sold his 3 year steers off grass also, straight range cattle, without any feed but grass, 264 head, which netted him $22,981. Frischknect sold his 2 and 3 year steers at $90 per head. Attebery contracted this spring calf crop of about 250 head at $32.00 per head to be delivered this fall.

Our local crop is the best we have ever grown without exception. It is the result of an excellent growing season and much better farming, the result of education in rotation and fertility of the land directly applied. We are selling alfalfa hay in the stack by measurement at $11 per ton; barley, which is yielding from 50 to 70 bushels per acre at $2.00 per cwt. Local wheat yields will run high, and prices good, and the sugar beet which is contracted in advance of growing is the best prospective yield in the history of the industry in this locality. * * *

We have reason to look forward to a most successful year.

Mitchell, Nebraska, July 22.

Cotton and Wool

The cotton crop is being watched with great solicitude by many millions of people. The growers in the Southern States have a vital interest in it, and all business in that section is largely dependent upon it, but interest is no greater there than among the millions of cotton goods operators in the factory towns of New England, old England and upon the continent of Europe. The Government report on July 2nd surprised everybody with its estimate of the acreage planted, 46,448,000, an increase of 3,807,000 acres, or 8.9 per cent over last year, although last year's figures were the largest on record to that time. The condition figure was 75.9 per cent, indicating a crop of 14,339,000 bales. The government report issued July 23, however, reduced the percentage figure to 70.4, which indicates a yield of 13,588,000 bales, a loss between the two reports of 751,000 bales. This is attributed mainly to the drought in Texas and Oklahoma, and there is danger of further loss in that territory. Weevil has done but little damage to this time.

The carry-over will be about the same as last year, so that the cotton-goods industry faces the coming year with smaller supplies than in the past year, when ginnings indicated a crop of over 14,000,000 bales. The price of cotton is up over one cent on the report, although the trade has received it doubtfully.

Wool prices, which went up like a sky-rocket last year, and lost a large part of the rise in the Winter and Spring, have been showing a good degree of steadiness in the last month. Sales in London and Australia have registered prices about the same as last Spring, and there seems to be no present prospect of an advance, as supplies are ample. Prices remain fairly remunerative, and if the reductions that have accurred, plus the wage reductions which are being made in woolen mills in England and the United States, have the effect of stimulating trade in woolen goods, present prices for the raw material probably will be maintained.

Bond Market

The month of July is second only to January in the amount of capital released for investment through maturing obligations and interest and dividend payments. It is always a period of looked-for investment demand. During the month just passed this demand has not fully materialized, due no doubt to the hesitancy of investors who think that bonds are high and are holding off in hope of lower prices. Exactly when July disbursements will begin flowing in greater volume to permanent investment channels, it is hard to say, but so long as these funds remain a potential factor, they should furnish a good market support.

New flotations generally are being well received though there has been some evidence of weakness in older outstanding issues. The Dow-Jones average for 40 listed issues (10

high grade rails, 10 second grade rails, 10 industrials and 10 public utilities) shows a slight decline in seasoned obligations during the month. The average on July 25th was 92.29 as compared with 93.08 on June 25th and 91.11 on July 25th a year ago. This average takes no account of foreign securities, therefore is not an accurate index of a general market in which foreign bonds are playing an important part. Were such foreign issues included, the general trend even on older issues, would probably be slightly upward, inasmuch as the market for foreign bonds generally showed a considerable improvement during the month.

With the market for United States securities always sensitive to trends in money rates, it is quite to be expected that such issues would show a slight falling off during recent money hardening. Early in the month the Fourth 4¼s due 1938 and the Treasury 4¼s due 1952 again made new high records for all time. Federal Land Bank bonds also showed considerable activity. Later liquidation, principally by institutions and banks, some of which was undoubtedly to meet capital requirements of the crop moving season, forced prices slightly downward. At present Government securities are moving on an even keel at a level slightly below the recent high.

The outstanding piece of new financing during the month was the $75,000,000 Commonwealth of Australia 30-year 5s offered by a nation-wide American syndicate at 99½ to yield slightly more than 5 per cent. In spite of the size of the loan—and the fact that this is the first time that the Australian Federation has come to American markets for credit, the issue was quickly oversubscribed, showing that Australian credit ranks along with Canadian credit in this market.

Coincident with the offering in America, was an offering in London of five million pounds sterling of the same obligations, which was readily absorbed. Evidently American investors were afforded this opportunity simply because the London market felt itself unable to stand the strain of so large an issue at this time. The success of the Loan is already having its effect in accelerating the downward movement in interest yield on other foreign bonds, thus reducing further the differential in yield still existing between good foreign and domestic issues. While the domestic market continues on a fairly even keel, foreign bonds have been showing a consistent market rise.

Among the leading issues of the past month were the following:

$75,000,000	**Commonwealth of Australia External Loan of 1925 Thirty-Year 5 per cent Gold Bonds, due July 15, 1955, price 99½ and interest, to yield over 5 per cent.**
40,000,000	**Central Pacific Railway Co. 35 yr. Gtd. 5s, due Aug. 1, 1960, price 98 and interest, to yield about 5⅛ per cent.**
20,000,000	**Hershey Chocolate Co. 1st Mtg. & Coll. Tr. S. F. 5½s, due July 1, 1940, price 98 and interest to yield 5.70 per cent.**
15,000,000	**City of Berlin, Germany, 30 yr. S. F. 6½s, due April 1, 1950, price 89 and interest, to yield about 7.50 per cent.**
13,500,000	**Great Consolidated Elec. Power Co. Ltd. 1st & Gen. S. F. 6½s, due July 1, 1950, price 86 and interest, to yield 7.75 per cent.**
13,000,000	**Stevens Hotel Co. First Mtge. S. F. 6s, due July 1, 1945, price 100 and interest.**
10,000,000	**Hungarian Consolidated Municipal Loan 7½ per cent Secured S. F. Gold Bonds, due July 1, 1945, price 89 an interest, to yield about 8.67 per cent.**
10,000,000	**City of Cologne (Germany) Twenty-five year 6½ per cent S. F. Gold Bonds, due March 15, 1950, price 87½ and interest, to yield over 7⅝ per cent.**
8,500,000	**Toledo Traction, Light & Power Co. 5 year 5½ per cent Secured Notes, due July 15, 1930, price 99 and interest, to yield 5.73 per cent.**
7,500,000	**The Chicago, Rock Island & Pacific Railway Company Three-Year 4½ per cent Secured Gold Notes, due Aug. 1, 1928, price 99 and interest, to yield about 4⅞ per cent.**
5,000,000	**Chicago Sanitary District 4s, due 1926 to to 1945, inclusive, offered at prices to yield 3½ to 4 per cent.**

Government Finance and Taxation

Subject to minor corrections, the figures for the revenues and expenditures of the United States Government for the fiscal year ended June 30, 1925, are now available. It is interesting to note the principal sources of receipts and principal objects of expenditures, and to compare them with the estimates submitted by Secretary Mellon to the Congress in October last, as the figures appear below:

Ordinary Receipts:	Estimate	Actual
Customs	550,000,000	547,561,226.11
Internal revenue:		
Income tax	1,660,000,000	1,760,537,823.68
Miscel. internal revenue	826,325,000	828,638,067.90
Total internal revenue	2,486,325,000	2,589,175,891.58
Miscellaneous receipts:		
Proceeds of Gov't owned securities—		
Foreign obligations—		
Principal	23,088,687	23,247,699.07
Interest	159,215,670	160,389,977.94
Railroad securities	110,000,000	143,911,420.98
All other securities	17,253,825	19,843,302.01
Trust fund receipts (reappropriated for investment)	39,889,841	33,373,481.01
Proceeds sale of surplus property	26,850,159	23,768,975.02
Panama Canal tolls, etc.	21,009,000	23,089,957.87
Receipts from miscellaneous sources credited direct to appropriations	18,180,154	29,603,432.29
Other miscellaneous too numerous for details	150,155,961	186,183,320.54
Total miscellaneous	565,643,297	643,411,566.73
Total ordinary rec'pts	3,601,968,297	3,780,148,684.42
Ordinary expenditures:		
Regular official establishment (legislative, executive, & judicial)	1,361,617,813	1,391,545,984.63

	Estimate	Actual
U. S. Veterans' Bureau	411,979,821	384,715,796.72
Other Independent offices and Commissions	26,680,423	27,682,445.27
District of Columbia......	30,559,284	32,712,980.57
Unclassified items		347,318.73
Interest on the public debt	865,000,000	881,806,662.36
Refunds of receipts:		
Customs	20,012,500	22,920,891.05
Internal revenue	127,310,000	147,777,034.05
Postal deficiency	10,130,931	23,216,783.58
Panama Canal	9,799,805	9,092,818.69
Operations in special accounts:		
Railroads	15,733,489	7,204,992.53
War Finance Corporation ....(1)	30,000,000	(1) 42,901,758.13
Shipping Board	54,500,000	30,304,859.54
Alien Property Funds		4,018,131.55
Adjusted service certificate fund	100,000,000	99,458,769.16
Loans to railroads	6,000,000	
Investment of trust and special funds:		
Government life-insurance fund	39,659,841	31,991,713.82
Civil-service retirement fund	8,000,000	9,745,622.04
District of Columbia teachers' retirement fund	230,000	258,006.70
Foreign service retirement fund	63,500	82,568.91
General railroad contingent fund	5,000,000	1,123,760.49
Total	3,122,277,407	3,148,908,848.52
Public debt retirement chargeable against ordinary receipts:		
Sinking fund	310,000,000	306,308,400.00
Purchases from foreign repayments	208,600	386,100.00
Received from foreign governments under debt settlements	160,345,601	158,793,500.00
Received from estate taxes	100,000	47,550.00
Purchases from franchise tax receipts Federal reserve banks and Federal intermediate credit banks	1,152,200	794,159.88
Forfeitures, Gifts, etc....		208,403.95
Total	471,806,401	466,538,113.83
Total expenditures chargeable against ordinary receipts....	3,594,083,808	3,615,446,962.35

(1) Excess of credits, deduct.

The net result was a surplus of $250,505,238.33, against an estimate of about $67,000,000. The income tax yielded $100,000,000 more than was estimated, thanks to the business revival in the last quarter of 1924, reimbursements from railroads gave an increase of $34,000,000, and various smaller gains accounted for the remainder. Notwithstanding the large reduction in tax rates made last year the aggregate of income tax collections fell off only about $80,000,000 and of miscellaneous revenue $132,000,000.

In addition to the public debt retirement accomplished by the regular operations of the sinking fund, the entire surplus was applied to that purpose and the Treasury working funds were reduced to the extent of about $17,500,000, making the aggregate debt reduction in the year $734,619,101.59. This is paying off with great rapidity.

The regular maturities of public debt during the fiscal year amounted to $2,307,041,400 bearing an average annual interest rate of 4.446% and new issues (exclusive of a small amount of Treasury savings certificates) were floated in the aggregate amount of $1,882,167,000 at an average annual interest rate of but 3.557%. The reduction in annual interest charges on the new issues as compared with the charges on the maturing issues, was $16,730,000.

Four per cent 20-30 year Treasury bonds were issued during the fiscal year 1925 amounting to $1,047,088,500 face amount. This long-time financing removes the pressure on the refunding operations which will be necessary in connection with the maturity of the Third Liberty Loan on September 15, 1928. As a result of this and other debt changes in the fiscal year, the short-dated debt (maturing within five years) on June 30, 1925, was $6,252,000,000 as against $8,074,000,000 on June 30, 1924.

Prospect of Further Tax-Reduction

The surplus of over $250,000,000 shown in these accounts, and the prospect of an increasing yield from the present levies in the future, afford ample warrant for another downward revision of tax rates. Happily there appears to be practical unanimity upon this, and while doubtless there will be some contention over the method of the reductions, it is interesting to note that nobody now stands out against lowering the maximum surtax to 25 per cent, as proposed by Secretary Mellon to the last Congress. Indeed, it is not improbable that a lower maximum may be adopted. The Minnesota Bankers' Association last month adopted a resolution in favor of reduction to 20 per cent. Fortunately, the subject seems likely to be dealt with this time with a minimum of political controversy, which gives hope that the revision may be along scientific and practical lines.

The Rubber Situation

Since the rubber situation was reviewed in our June Letter it has become more tense, with an increasing demand and speculation evidently a factor. It is common experience that when supplies of any commodity are abundant and there is no prospect of scarcity, consumers will buy for immediate needs only and play for lower prices. This was the situation in rubber last year. It is likewise common experience that when consumers and traders suddenly wake up to find supplies are dwindling, and newspaper stories say that a serious shortage is impending, buying will set in, not only against probable needs of the buyers but for speculation. Of course, such buying acceler-

ates the rise. It is legitimate, however, and just as truly an effect of the play of supply and demand as the actual shortage which it anticipates.

It is evident now that the speculative guardians of the rubber situation were asleep on the job last summer, or they would have begun to buy and store rubber when it was selling at 17 cents per pound. If they had done so, exports of rubber from the British colonies would have been larger throughout the past year, stocks in the hands of manufacturers and jobbers would have been larger this summer, production now would be at a higher rate and the outlook would be less alarming.

Every write-up of the rubber situation has featured the dramatic rise from 17 cents per pound to 50, 75, $1.00 and $1.20, as the market has reached these figures successively, but it is not always pointed out that this great swing only illustrates the tendency of all markets to go from one extreme to another. Why are hogs selling in Chicago at about $14.00 per hundredweight, against about $7.00 last year? Because $7.00 was too low and the farmers curtailed production in consequence. Why is sugar selling at 2½ cents per pound to Cuban producers? Because high prices a few years ago over-stimulated the industry.

Rubber Prices, 25 Years

The following table gives average New York prices from 1900 of fine Para rubber and of plantation rubber since 1910:

Year	Para	Plant.	Year	Para	Plant.
1900	$ .982		1913	.81	.82
1901	.85		1914	.62	.65
1902	.727		1915	.56	.66
1903	.905		1916	.67	.72⅛
1904	1.09		1917	.65	.72
1905	1.24		1918	.55	.60
1906	1.21		1919	.48	.487
1907	1.06		1920	.33	.36
1908	.87		1921	.182	.163
1909	1.48		1922	.183	.17
1910	1.91	$2.07	1923	.249	.296
1911	1.11	1.41	1924	.211	.26¼
1912	1.05	1.22			

It is evident that very little rubber ever has been sold at 17 cents a pound in the history of the industry. Talking about 17 cents for rubber is much like talking about 50 cents for wheat. Moreover, this record indicates that since 1920 there has been little inducement to enlarge the plantations. The Stevenson plan has not prevented the planting of rubber trees against future demands, for its contains a provision for releasing the product as the demand increased and the price advanced above 30 cents.

Mr. W. O. Rutherford, Vice-President of the B. F. Goodrich Company, one of the largest consumers of rubber in this country, and also President of the Rubber Association of America, in a recent interview names the real cause of the falling off of planting. Discussing the situation, he said:

"The present price of crude rubber is causing concern. The real crisis in the rubber situation will be two or three years hence. The rubber industry for the last five or six years had a rather difficult time. As a result, rubber planters became greatly discouraged and largely discontinued planting. This has resulted in a temporary shortage in rubber. With the improvement in the rubber situation, rubber planters have revived their interest and will now take up planting again. It takes about six years to put a rubber tree in the state of production.

Under the provisions of the Stevenson plan the percentage of British standard capacity which may be exported under the minimum tax rises on August 1st from 65 per cent to 75 per cent and if prices remain at or about the present level will rise to 85 on November 1st and 95 per cent on February 1st, even if no action is taken to remove the restriction in the meantime. It is not likely that production will be restricted in the meantime, even though exports are restricted, for the producers will anticipate the operation of the law. It is probable therefore that if the shortage of rubber is due to the Stevenson plan it will soon be over; on the other hand, if there is a shortage of rubber trees the real cause has been the low prices, for which the Stevenson plan was intended to be a temporary remedy.

Repeal Probable

American manufacturers have made representations as to the effect of the violent rise and suggested that a release on August 1st of 75 instead of 65 per cent would be in the interest of the rubber industry generally, which is a moderate proposal. Whether there is immediate action or not, it is very likely that the Stevenson legislation, having served its original purpose, which was to check, not the planting of trees, but the exportation of excessive supplies of the product, will be repealed. British manufacturers of raw materials have the same interest as American manufacturers in cheap raw materials, and there is the further fact that prices having been restored British plantation interests will no longer want their own hands tied while competition is rapidly developing in all other rubber-producing countries.

At the annual meeting of the Dunlop Rubber Company, Limited, in London on June 12 last, Sir Eric Geddes, Chairman of the Company, discussing the situation, said:

Comparing 1924 with 1922, we find that the raw rubber demand has increased by 75,000 tons per annum, total production has increased by 21,000 tons per annum, and British production, where the restriction scheme operates, has decreased by 50,500 tons per annum; and where as in 1920 73 per cent, of the world's supply of rubber came from Malay and Ceylon, which are the British producing areas, this percentage has fallen to 50 per cent. in 1924, and rubber from the Dutch plantations rose from 15 per cent. to 37 per cent. in the same period. Can any increase in price be viewed as adequate compensation for such a state of affairs.

As you know, the British rubber-growing interest in the world was predominant, and I am concerned to think that this great and increasing industry should be passing away from under the British flag. Your company is the largest grower of rubber and also the largest consumer of rubber in the whole Empire, although we greatly predominate as a consumer; in fact, our demands, excluding the American Company, are somewhat in the neighbourhood of 70 per cent. of the total rubber consumed in this country. We feel, therefore, that we are able to look at the matter from both the growers' and the manufacturers' point of view, and whatever merits or demerits the Rubber Restriction Scheme may have had, we feel that the time has now arrived when it ought to be reviewed by an entirely impartial body, before whom the views of growers, manufacturers, and users could be put. The present shortage of rubber, and the apparent transfer of our share of production to countries not under the British flag, would appear to be ample justification for this course; also, it is certainly open to doubt whether the present scheme is fairly fulfilling its object, and whether it is to the good of the industry or of the community at large.

Advices to the Department of Commerce, Washington, D. C., from Brazil report that these prices have stirred up a new interest in rubber production in that country. A statement from Washington says:

In Para and the Amazon Basin, where wild rubber was once wrung from the forests or prepared for export, but where the entire trade has since fallen off from plantation competition, there is now life and activity unthought of for many years.

Forest estates that have been given up in past years are being reopened, the reports say, and forces of rubber hunters are being hastily assembled, now that rubber has gone above $1 per pound. Shipments of rubber are increasing rapidly, but stocks at the ports are almost non-existent, having been shipped out in the first flush of demand.

If the British producers shall insist upon pursuing a policy of restriction under existing conditions they undoubtedly will furnish another demonstration of the well-established truth that artificial methods of price-control inevitably react disastrously if an attempt is made to raise prices unduly above cost of production.

Another Rule of Reason

The Supreme Court of the United States has adopted another "rule of reason" in its interpretation of the law against combinations in restraint of trade, and one which promises to have important results. In reversing decisions in lower courts against the Maple Flooring Manufacturers' Association and the Cement Manufacturers' Protective Association, the Supreme Court has very much broadened the field for lawful co-operation through such trade associations in the regulation of production.

In the cement case the prosecution charged that the defendants, through the activities of the association, controlled prices and production in the following manner:

"1. By the use of specific F. O. B. contracts for future delivery of cement, accompanied by a system of reports and trade espionage having as its objective the restriction of deliveries of cement under those contracts.

"2. By compiling and distributing among the members freight rate books which give the rate of freight from arbitrary basing points of delivery within the territorial area served by the several defendants.

"3. By exchange of information concerning credits.

"4. By activities of the association at its meetings."

The Government contended that uniformity of prices and limitation of production were necessary results of these activities, but did not charge any agreement to limit prices or production, nor claim that prices were excessive or unreasonable.

In submitting the Court's opinion in this case Justice Stone said the two essential elements in a conspiracy in this case were the gathering and reporting of information which would enable individual members of the association to avoid making cement deliveries on specific job contracts, and the gathering of information as to production, price of cement sold on specific job contracts and transportation costs.

The opinion continued:

"That a combination existed for the purpose of gathering and distributing these two classes of information is not denied. That a consequence of the gathering and dissemination of information with respect to the specific job contracts was to afford to manufacturers of cement opportunity and grounds for refusing deliveries of cement which the contractors were not entitled to call for, an opportunity of which manufacturers were prompt to avail themselves, is not open to dispute.

"We do not see, however, in the activity of the defendants with respect to specific job contracts any basis for the contention that they constitute an unlawful restraint of commerce."

In the Maple Flooring Association case the activities complained of were summarized by the Court as follows:

(1) The computation and distribution among the members of the association of the average cost to association members of all dimensions and grades of flooring.

(2) The compilation and distribution among members of a booklet showing freight rates on flooring from Cadillac, Michigan, to between five and six thousand points of shipment in the United States.

(3) The gathering of statistics which at frequent intervals are supplied by each member of the association to the secretary of the association giving complete information as to the quantity and kind of flooring sold and prices received by the reporting members, and the amount of stock on hand, which information is summarized by the secretary and transmitted to members without, however, revealing the identity of the members in connection with any specific information thus transmitted.

(4) Meetings at which the representatives of members congregate and discuss the industry and exchange views as to its problems.

The Court says that it is not alleged or proved that there was any agreement affecting production, fixing prices or price-maintenance, the contention of the Government being that the activities of the association necessarily must have the effect of bringing about a concerted effort of members to maintain prices at levels having a close relation to the average cost of flooring reported to members.

The Court says that there was no direct proof that the activities of the association had affected prices unfavorably to consumers, "but on the contrary," a great volume of evidence "tending to show that the trend of prices of the product of the defendants corresponded to the law of supply and demand and evidenced no abnormality as compared with the prices of commodities generally." There was "undisputed evidence that the prices of defendants were fair and reasonable," and "no claim that the defendants were guilty of unfair or arbitrary trade practices."

The Court refers to the hardwood and linseed oil cases, and notes the distinctions between these and the cases before it. In the hardwood case the record disclosed systematic efforts on the part of the secretary of the association, participated in by the members, to cut down production and increase prices. In the linseed case, members were required by the agreement to telegraph all variations of prices, terms and discounts, names of prospective buyers, etc. The Court makes the point also that the information gathered was not made public, but treated as confidential to members and concealed from buyers.

Stabilization of Industry Desirable

That the full and free publication of information as to costs, sales, stocks, etc., will tend to stabilize prices is apparent, but the Court does not view this as in violation of law or undesirable. It says, in the Maple Flooring case:

It is not, we think, open to question that dissemination of information concerning any trade or business tends to stabilize that trade or business and to produce uniformity of price and trade practice. Exchange of price quotations of market commodities tends to produce uniformity of prices in the markets of the world. Knowledge of the surplus of the available merchandise tends to prevent overproduction and to avoid the economic disturbances produced by business crises resulting from overproduction. But the natural effect of the acquisition of wider and more scientific knowledge of business conditions, on the minds of the individuals engaged in commerce and its consequent effect in stabilizing production and price can hardly be deemed a restraint of commerce or if so, it cannot, we think, be said to be an unreasonable restraint, or in any respect unlawful.

It is the consensus of opinion of economists and of many of the most important agencies of government that the public interest is served by the gathering and dissemination, in the widest possible manner, of information with respect to the production and distribution, cost and prices in actual sales, of market commodities because the making available of such information tends to stabilize trade and industry, to produce fairer price levels and to avoid the waste which inevitably attends the unintelligent conduct of business enterprise. * * *

Free competition means a free and open market among both buyers and sellers for the sale and distribution of commodities. Competition does not become less free merely because the conduct of commercial operations becomes more intellignt through the free distribution of knowledge of all the essential factors entering into the commercial transaction.

* * * *

It was not the purpose or the intent of the Sherman Anti-Trust Law to inhibit the intelligent conduct of business operations, nor do we conceive that its purpose was to suppress such influences as might affect the operation of interstate commerce through the application to them of the individual intelligence of those engaged in commerce, enlightened by accurate information as to the essential economics of a trade or business, however gathered or disseminated. Persons who unite in gathering and disseminating information in trade journals and statistical reports on industry; who gather and publish statistics as to the amount of production of commodities in interstate commerce and who report market prices, are not engaged in unlawful conspiracies in restraint of trade merely because the ultimate result of their efforts may be to stabilize prices or limit production through a better understanding of economic laws and a more general ability to conform to them, for the simple reason that the Sherman Law neither repeals economic laws nor prohibits the gathering and dissemination of information. Sellers of any commodity who guide the daily conduct of their business on the basis of market reports would hardly be deemed to be conspirators engaged in restraint of interstate commerce. They would not be any the more so merely because they became stockholders in a corporation or joint owners of a trade journal, engaged in the business of compiling and publishing such reports.

The Summing Up

In conclusion, the Court defined and limited its conclusions in the following paragraph:

We decide only that trade associations or combinations of persons or corporations which openly and fairly gather and disseminate information as to the cost of their product, the volume of production, the actual price which the product has brought in past transactions, stocks of merchandise on hand, approximate cost of transportation from the principal point of shipment to the points of consumption as did these defendants, and who as they did, meet and discuss such information and statistics without however reaching or attempting to reach any agreement or any concerted action with respect to prices or production or restraining competition, do not thereby engage in unlawful restraint of commerce.

Dissenting Opinions

Three members of the Court dissented. Chief Justice Taft and Justice Sanford contented themselves with saying that in their opinion these cases came within the rule laid down by the Court in the hardwood and linseed oil cases. Justice Reynolds rendered a more explicit opinion. He said:

These causes disclose carefully developed plans to cut down normal competition in interstate trade and commerce. Long impelled by this purpose, appelants have adopted various expedients through which they evidently hoped to defeat the policy of the law without subjecting themselves to punishment.

They are parties to definite and unusual combinations and agreements, whereby each is obligated to reveal to confederates the intimate details of his business and is restricted in his freedom of action. It seems to me that ordinary knowledge of human nature and of the impelling force of greed ought to permit no serious doubt concerning the ultimate outcome of the arrangements. We may confidently expect the destruction of that kind of competition long relied upon by the public for establishment of fair prices, and to preserve which the Anti-trust Act was passed.

United States v. American Linseed Oil Co., 262 U. S. 371, states the doctrine which I think should be rigorously applied. Pious protestations and smug preambles but intensify distrust when men are found busy with schemes to enrich themselves through circumventions. And the Government ought not to be required supinely to await the final destruction of competitive conditions before demanding relief

through the courts. The statute supplies means for prevention. Artful gestures should not hinder their application.

The Forces Making for Competition

In our opinion the liberalization or clarification of judicial interpretation which is accomplished by the decision of the Court will tend to stabilize production and employment, modify price fluctuations and reduce the risks —and therefore the costs—of business, without having the harmful results contemplated in the dissenting opinion. It will permit the development of a higher degree of order and economy in business, but the view that it will eliminate competition underrates the natural forces which are behind competition.

The theory that if it were not for the law, competition would cease and competitors readily agree to divide the business in each line, is very far from the truth. There are too many inequalities and different conditions among competitors for lasting arrangements of that kind. New methods, new inventions and new men are constantly changing the business situation. New contenders who have confidence in their competitive ability, by reason of advantages or resources of any kind, are not content to remain in subordinate or inferior positions, simply because they are newcomers in the field. Every truce among competitors tends to maintain the existing status among them and to limit the growth of the ones who are best able to expand. It tends to protect the weak and high-cost concerns, invite more competition, and divide the volume of production among numerous units.

There is little danger of modern business developing in that direction or that such arrangements will last long. The ambitious and capable managers of this day have their eyes set in the opposite direction. They are bent on consolidating output, lowering costs, stimulating consumption and securing volume production on a margin of profit so low that it is a negligible factor in the ultimate price. The idea of limiting their own possibilities in order to placate and keep alive a lot of competitors whom they do not fear, does not have much appeal to managers of the up-to-date type, and there are enough of them in every line to set the pace. When Greek meets Greek there may be a respectful tempering of competition, but it is on a level that affords a small chance for high-cost competitors and little basis for complaints of exorbitant prices.

Progress with Reparation

Mr. S. Parker Gilbert, Agent-General of Reparation Payments, formerly Under-Secretary of the United States Treasury, has made public recently his first extended report, covering the eight months from September 1, 1924, to May 31, 1925. Besides giving an account of the receipts and disbursements of his office on reparations account, it gives much instructive information and comment upon economic conditions in Germany and upon the development and influence of operations under the Dawes Plan. The report is an encouraging one.

The Plan was adopted by an agreement signed by the Allied and German governments in London on August 30, 1924, and may be said to have been in effect from that time, but it was not until October 28 that the organization was completed, and on October 31 the Agent-General assumed his responsibilities.

The Transfer Committee, upon whom devolves the task of accomplishing the transfer of funds to the creditor governments, either by the purchase of exchange or the authorization of payments in kind, is composed as follows. S. Parker Gilbert, Chairman, American; Joseph E. Sterrett, American; Jean Parmentier, French; Henry Bell, British; Pasquale Jannaccone, Italian; Albert E. Janssen, Belgian.

The Foreign Loan

The report describes the disposition of the foreign loan, which provided the equivalent of $200,000,000, as follows:

In accordance with the terms of the Loan, its proceeds in the respective foreign currencies realized were all credited to the Reichsbank in an account in the name of the Reich and under the control of the Agent General for Reparation Payments. These foreign currencies were subsequently released to the Reichsbank, as contemplated by the Plan, the equivalent in reichsmarks being deposited with the Reichsbank to the credit of an account in the name of the Reich and under the control of the Agent General. By agreement with the German Government, the Agent General has the sole drawing power over this account. It was agreed further that the German Government would receive credit on account of the Annuity for the withdrawals from the Loan account made by the Agent General from time to time, at the gold mark equivalent of the reichsmarks withdrawn.

It will be seen that the loan has served a double purpose, for while it enables the Agent-General to pay reparations it also has supplied a gold reserve for the Reichsbank. The Bank is able to put in circulation an amount of notes much larger than its reserve, and the drafts which the Agent-General draws on his account enter into circulation and come back to the Bank.

The payments of the Agent-General thus far, excepting interest payments on the foreign loan, have been nearly all within Germany and mostly in settlement of commodity shipments or services on reparation account, together with reimbursement of allied expenses and administration costs.

Disbursements of Agent-General, Six Months

		Gold Marks
Deliveries in Kind:		
Coal, Coke, by-products, etc.	146,094,320.80	
Transport (substantially all within Germany) of coal, coke and by-products	53,091,833.13	
Chemical fertilizers	13,742,606.15	
Dyestuffs and pharmaceutical products	24,848,357.90	
Miscellaneous goods	40,030,116.67	277,807,234.65
Restoration of Library of Louvain		696,424.77
Reparation Recovery Acts		132,530,060.28
Occupation Costs:		
Armies of Occupation	32,813,226.62	
Requisitions, damages and furnishings in the Rhineland	84,204,989.67	
Furnishings in the Ruhr	32.166,666.66	149,184,882.95
Service of German External Loan 1924		41,576,661.60
Administrative and Control Costs:		
Reparation Commission	4,262,379.00	
Rhineland High Commission	5,525,010.33	
Military Commission of Control	7,000,000.00	
Naval Commission of Control	70,000.00	
Office for Reparation Payments	2,036,765.84	18,894,155.17
		620,689,419.42

The "reparation recovery acts" referred to are the acts passed by Great Britain and France before the Dawes Plan was adopted, levying special taxes upon imports from Germany and requiring importers to pay them directly to their respective governments.

Payments in Goods and Services

What Mr. Gilbert says about payments in kind and the increasing tendency toward contracts for goods and construction work is of great interest. He says:

Deliveries in kind, as will be noted, have consisted largely of coal, coke and lignite, with their by-products, and of chemical fertilizers and dyestuffs. There has been, however, particularly in recent months, an increasing tendency toward contracts covering a greater variety of goods and including more of a capital nature.

In the past few months about 130 contracts have been executed. Some of the larger and more interesting provide France with 100,000 telegraph poles costing approximately 1,652,000 gold marks, the completion of two ships at a cost of 14,500,000 gold marks, and 4,000 railway trucks costing 23,615,000 gold marks. A contract has also been executed recently between a German firm and the French Ministry of Public works for important dredging in the river Seine. This appears to be the first instance under the Plan of a reparation contract for work to be done by German labor in France.

The contracts for Belgium include the installation of a floating dock at Boma in the Belgian Congo costing some 760,000 gold marks, and railway material for the Belgian Congo, costing approximately 1,920,000 gold marks. Another contract provides for 25 barges of 1,350 tons each, at a total cost of 2,620,000 gold marks.

Among other things there is a wireless transmission station for Italy, which was under contract on September 1, 1924: it is estimated that the remaining cost to be paid out of the Annuity will amount to about 2 million gold marks. Roumania has contracted for railway engines and other railway material costing 16,500,000 gold marks, while Greece is being provided with 185 wooden huts costing 4,300,000 gold marks for use in lodging refugees from Asia Minor and Thrace.

Four Years of Failure

Before the Dawes Plan was adopted the allied governments had spent four years in futile efforts to make Germany pay reparations in money, despite the continued warnings of economists and business men that great payments across national boundaries could be made only in goods or services, and that this required co-operation on the part of the creditor countries or that Germany should have liberal access to neutral markets. The creditor countries were eager for reparations but not at all eager for German goods, and, as trade was none too good in any part of the world, neutral markets like the United States were prompt to give notice that they had no intention of receiving unusual quantities of German goods.

This was the situation when the Dawes Committee made its report, which stated the principles involved so clearly that there was nothing to do but accept the policy indicated. The Plan provides that the German government discharges its obligation by the payment of the required sums of German currency into the Reichsbank to the credit of the Agent-General.

Reviewing his own duties the Agent-General quotes at length from the Dawes report, and in view of the general application of the principle to all international payments and international trade, we reproduce a portion of his statement and quotations. The italics are our own:

The Experts stated in their Report that "there has been a tendency in the past to confuse two distinct though related questions, i. e., first, the amount of revenue which Germany can raise available for reparation account and second, the amount which can be transferred to foreign countries." *This distinction is fundamental to the Plan.* The first question is covered by the provisions for the payment of the stipulated Annuities to the credit of the Agent General for Reparation Payments at the Reichsbank. These payments are to be made in German Currency, and their payment constitutes the definitive act of the German Government in meeting its financial obligations under the Plan.

There remains the second phase of the problem, as to how much can be transferred abroad without creating difficulties with the foreign exchange. In this connection the Experts recognized in their Report that the funds raised and transferred to the Allies on reparation account cannot, in the long run, exceed the sums which the balance of payments makes it possible to transfer, without currency and budget instability ensuing—A country's economic balance defies exact calculations. The balance, even at a given moment can only be estimated approximately, for the invisible exports and imports which constitute an important part of it cannot be known exactly. And a potential economic balance is much more uncertain. It depends not on the decision of a single authority, but on the enterprise of individual merchants and manufacturers—But the limits set by the economic balance, if impossible of exact determination, are real. *For the stability of a country's currency to be permanently maintained, not only must her budget be balanced, but her earnings from abroad*

must be equal to the payments she must make abroad, including not only payments for the goods she imports, but for the sums paid in reparation. Nor can the balance of the budget itself be permanently maintained except on the same conditions."

The report of the Agent-General, and particularly the statement as to contracts given, shows that the allied countries finally have absorbed the lesson that Germany has no means of paying them except in the proceeds of German labor, and that they must find ways of using that labor.

German Banking Conditions

In touching upon general conditions in Germany Mr. Gilbert gives a table which combines the statements of the six largest German banks at the dates given, and comments upon the recovery shown since the beginning of 1924, when the old currency was abandoned and the temporary rentenmark currency, substituted to bridge over the period while the Dawes Committee was functioning. He says:

The portfolio of bills and treasury notes, stated in gold values, has multiplied in these 16 months some twenty-five times; that advances on merchandise have multiplied five times; that advances on stocks and bonds have multiplied four times; that loans on current account have multiplied four times; and that time and demand deposits have multiplied slightly less than four times. Yet in both loans and deposits the figures remain far below what was usual before the war.

Interest Rates

The cost of credit, though it remains high, has declined as credit conditions have become less restricted. The quoted rates of interest, however, are not fully indicative of conditions in the loan market as a whole, because in some cases the rates are the result of special consideration on the part of banking authorities, and in others are nominal rates subject to deviation upwards and downwards. Among the rates most frequently quoted is the rate for day-to-day money on the Berlin Bourse, which at the beginning of January, 1924 stood at about 100 per cent per annum. It fell, steadily, almost without interruption except for a temporary rise in March and April 1924, until it reached the Reichsbank discount rate of 10 per cent, which had remained unchanged throughout 1924. During the first four months of 1925 the day-to-day rate has ranged from 8 to 11 per cent. Money at one month has been from about one to three per cent above the day-to-day rate. For some time previous to the lowering of the Reichsbank rate from 10 to 9 per cent, on February 26, 1925, the standard rate charged by the important Berlin banks on ordinary commercial loans was 15 per cent from which, however, there were many variations. After the lowering of the Reichsbank rate the standard rate was reduced to 14 per cent, but from this also there remain many variations. The rate for bills on the open discount market has been consistently at 8 per cent since January, but this rate must still be regarded as governed by special conditions.

Mr. Gilbert's Comments

Mr. Gilbert's sympathetic interest in his task appears all the way through the report and is evident in the following paragraphs, one of which appears at the beginning and the other at the close:

It is too early to draw conclusions regarding the ultimate effects of the plan. Broadly it is an endeavor to stimulate confidence among peoples and to apply principles of reason and justice to a difficult, vital problem. The success of the Plan will be measured not alone in terms of payments effected. It will be determined also by the extent to which it helps to replace distrust and discord with confidence and conciliation. Its early operation has fulfilled expectations, and this report is written in the belief that information regarding what has been done will assist, both in the creditor countries and in Germany, toward confirming those forces which are working for reconstruction.

* * * * *

The Expert's Plan proposed in effect an international experiment in good will. It aimed to remove from the field of controversy a subject which after all is largely economic in character and to give a fair trial to methods of patient inquiry and quiet administration. In carrying it out, the Allied Governments, the German Government and all the agencies concerned in its execution have worked together loyally, and in the spirit of friendly accommodation which was the basis of the Plan. Its further progress will mainly depend upon the continuance of that mutual faith and confidence which have made possible a satisfactory beginning.

International Chamber of Commerce

The sessions of the International Chamber of Commerce, held in Brussels in June, were the scene, naturally enough, of a considerable discussion of reparations and debts. One of the features was a speech by Sir Josiah Stamp, who served on the Dawes Committe as one of the British members, and had been appointed Chairman of a special sub-committee of the Chamber, with Italian and French colleagues, to report upon the subject of international transfers of reparation payments. His address to the Congress was made in submitting the Committee report, which is a very exhaustive treatment of the subject, and was a summary of its conclusions. A report of this speech was telegraphed to the press of this country in abbreviated form, and conveyed the impression that he predicted the failure of the Dawes Plan and laid the failure in advance upon the United States for unwillingness to receive German products or the products of its own debtors in payment of the latter's obligations.

The full report does not justify this interpretation. He certainly did not predict failure for the Dawes Plan, for he simply points out, as every well-informed commentator does, that responsibility will not lie with the Plan if reparation payments are disappointing. He expresses misgivings that even yet the creditor countries do not fully appreciate that great international payments can be made only by the ordinary processes of industry and trade. He says that it is very common for people to fool themselves by refusing to accept economic facts and insisting upon policies which for the moment are more agreeable to their desires or sentiments. He says upon this point:

Economic truths have a nasty knack of not being as rosy as our desires or hopes; and we were tempted to wrap them up in pleasant language, to ignore them, or to hide them. Hence came attempts to balance budgets by financial expedients rather than resort to unpopular taxation; and attempts to raise the standard of living without a general increase in

output per working hour. It was the natural tendency to adopt views favourable to our wishes that led many to accept without examination a number of the earlier projects and ideas regarding reparations promulgated by eminent lawyers and statesmen who had no economic training or statistical instinct.

His remarks were addressed as much to Great Britain as any other country. Considering what actions or ideas would make the transfer of reparations more difficult, he is reported as follows:

The first cardinal economic truth that emerged was that the purchase of foreign currencies with marks paid to the Allies could not proceed faster than the physical surplus of exports was made effective. We had tried hard to dodge this and to think there must be some way in which Germany could purchase dollars, francs, and sterling if she would without entailing depreciation of the exchanges. Other points to be borne in mind were the effects of a general tariff policy and a narrowing market for Germany, and a selective tariff policy, excluding trade imports because they are similar to home manufactures.

He believed it to be true that Germany could pay her debts only by a lower real standard of living than she would have if she had no debts to pay, longer hours than she would otherwise work, and greater efficiency per working hour than other countries—one of them or all together. In so far as she had to rely on a lower real standard of living, the tariff policy abroad designed to rectify this difference was a real obstacle to Germany's reparation payment, as it was to the payment of inter-Allied debts. The British Safeguarding of Industries Act openly included consideration of comparative prices and costs which operated on similar lines and made transfers more difficult. An attempt was made to get an international agreement to restrict hours of labor. This, if successful, instead of enabling Germany to take the required margin for reparations by producing more and consuming less per head than other similarly placed workers, would throw the whole burden upon the standard of living. Germany would more easily produce salable reparation goods in sufficient quantities if no restrictions were put upon the workers.

It might well be desirable to protect particular fixed capital and skilled labour at home from increased competition in imports or lower prices. But a price must be paid, and that was the curtailment or discouragement of some export industry, since the German goods must find a market elsewhere in competition with our own exports. At some point or other new imports had to come into the Allied countries if reparations were to be effectively received. He felt that Germany could add to the capital goods of the countries of the world—to the machinery for future production—on a much larger scale, without destroying a reasonable level of prices, than she could possibly do on the goods of every-day individual consumption.

The direct reference to the United States was not to the effect that the United States must receive German goods in order that the Allies might receive reparations, but that the United States would have to receive from or on behalf of the Allies an amount of goods equivalent in value to perhaps 60 per cent of the reparation payments, in order to collect its own claims against the Allied countries. Just how that figure was arrived at is not clear, but obviously it is true that the United States is no exception to the rule that international payments are made and received in tangible goods or services of some kind.

Address by Mr. Rufus Dawes

In this connection it is pertinent to quote from an address before the Minnesota Bankers Association last month by Mr. Rufus C. Dawes who was an active participant in the conferences leading up to the Dawes Plan. He said:

If Germany pays its debt, England will be a creditor on net balance and France a debtor in comparatively small amounts. But, in the end, Germany is the great international debtor and the United States the great creditor. As our credits will about equal Germany's debits, essentially the problem of paying debts will be Germany's and the problem of collecting them will be ours.

By an apt description of the transfer committee as a "floating valve," Mr. Dawes shows the elasticity of the Plan of collecting reparations. He said:

Since all of this sum, from year to year, must be paid in foreign exchange, that is, in the end, by the shipment of goods beyond its territorial limits, or the performances of services, they created the transfer committee, which will exercise a control over the payments in order to prevent a collapse of the German currency or the German bank. The introduction of this "floating valve" by which payments may be deferred or abated whenever it would be dangerous to make them, is, in effect, only to leave it to the future to answer the question as to Germany's capacity to pay. If the development of productive capacity in Germany is sufficient to enable them to make the payments regularly, then it is to be presumed her creditors would be satisfied. If Germany does not develop its productive capacity to such an extent as to be able to make these payments, then its creditors have agreed in advance to an extension of time or under some circumstances to a reduction of the payments. In other words, the amounts Germany can pay eventually is subjected to the test of experience and not to the guess of theorists. In the end, some of the debt may have to be cancelled, but bankers know there is nothing immoral in the act of a creditor in composing or forgiving a debt. Good business sometimes requires it.

Mr. Dawes approved the application of the same principle in the settlement of the Inter-ally debts. He said upon this point:

That some such adjustment will be made in the settlement of Inter-ally debts seems certain. The interest of creditors are served by preserving the paying power of debtors. The interests of industry are served, too, by reserving the buying power of the purchasers of goods. Some adjustment for the settlement of Inter-Ally debt similar to the organization of the transfer committee under the Dawes plan, seems as necessary from the standpoint of creditors as from that of the debtors. It would tend to the collection of the maximum amounts with the minimum risk of injury. We should cease to worry as to whether it were better to lose part of the debt and pay more taxes, or on the other hand to make full collection and suffer widespread industrial depression.

The position of the United States Government has been definitely stated as being that while the principal of the debts should be paid in full, the time of payments and interest rate will be adjusted to suit the ability of the debtors. This is yielding upon the more important points, for upon long term indebtedness interest amounts to much more than principal. The figures of Treasury receipts and disbursements in the last fiscal year, which are given elsewhere in this publication, show that receipts last year on foreign government indebtedness were **$23,088,687 for principal and $159,215,670 for interest.**